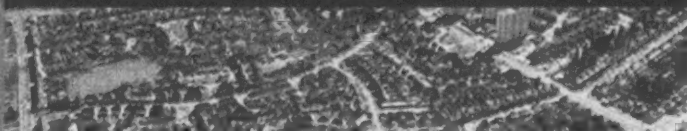


HOUSING MARKET OUTLOOK

Québec CMA



Canada Mortgage and Housing Corporation

Date Released: spring 2008

Economic and demographic environment remains favourable

The Québec census metropolitan area (CMA) economy has been very dynamic for the last few years. While growth is expected to slow down slightly in 2008 and 2009, the outlook will remain favourable.

The sluggishness currently affecting the manufacturing sector, as a result of the strong Canadian dollar, high energy costs and intense foreign competition, has practically spared

the Québec area. Although the area is starting to feel the effects following the recently announced shutdowns of the factory that manufactures Crocs sandals in Québec (nearly 700 jobs) and the AGC flat glass plant in Saint-Augustin-de-Desmaures (250 jobs), other projects, such as the relaunch of the Davie shipyard and the eventual start of construction on the Rabaska methane tanker terminal, will

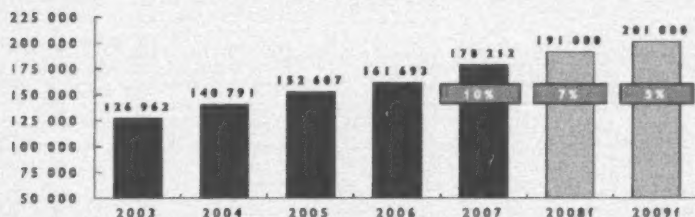
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Figure 1

Price Increases to Remain Steady

Average MLS® Price of Existing Properties (\$)
Québec CMA



Source: Chambre immobilière de Québec, compilation and forecasts: CMHC
f: Forecasts

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energize the job market over the coming years. In addition, investments for public infrastructure improvements will continue to stimulate employment in the non-residential construction sector.

After posting a gain of 2.4 per cent (9,000 jobs) in 2007, job creation will be somewhat more moderate, with increases of 1.4 per cent (5,000 jobs) in 2008 and 1 per cent (4,000 jobs) in 2009. In addition to the non-residential construction sector, the new jobs will be mainly in the retail, insurance, and accommodation and restaurant sectors. As well, the economy will continue to diversify with the expansion of companies in the life sciences sector (Anapharm, BD Diagnostics, etc.) and the video games sector (Beenox, etc.), as well as the establishment of research centres (Quebec Genome Centre, Institut national de recherche scientifique, Neurocité, etc.). A sign of a dynamic economy, the unemployment rate will stay at about 5 per cent.

On the demographic front, while the growth in the number of households slowed down in the area, the increase in the birth rate observed since the beginning of 2006 could stimulate the housing market. In fact, in many cases, the arrival of a child triggers the purchase of a property, and this recent surge in births could therefore boost homeownership over the next few years. Migration, on the other hand, is expected to decrease slightly. In fact, the more modest growth of the job market should cause net migration to fall from 4,500 people in 2007 to 4,000 in 2008 and 2009.

Mortgage rates will remain relatively flat

Posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

Resale market to stay active

The year 2007 ended with a record volume of 7,287 MLS® transactions, up by 6 per cent over 2006. The factors accounting for this strong activity include the economic vigour in the area, favourable financing conditions (given the increasing flexibility of mortgage lending options), and the rising inventories of properties for sale. This last factor has effectively been determining in recent years, with the little choice of properties for sale having limited transactions. The rise in inventories was halted during 2007, however, by the steady increase in sales. Consequently, the seller-to-buyer ratio began falling again, which gave back more negotiating power to sellers. This turnaround in the trend caused the average price of homes to resume double-digit growth in 2007 (+10 per cent).

In 2008, given the record sales registered in 2007, the decrease in the number of properties for sale will once again be the main factor that will limit the growth in transactions. As a result, even though the economic environment will still remain favourable, transactions will fall by 4 per cent this year (to 7,000). The number of properties for sale should start rising again, though, during the course of the year. The aging of the population and the arrival on the market of several hundred retirement housing units will prompt a number of older households to put their properties up for sale. With this increase in supply, sales should rise to 7,200 in 2009. In this context, the seller-to-buyer ratio will resume an upward trend, which will somewhat curb the growth in prices. However, since the market will still be favourable to sellers, the price increases will again be above inflation. The average price will therefore reach \$191,000 (+7 per cent) in 2008 and \$201,000 (+5 per cent) in 2009.

Even if sellers are expected to lose some of their bargaining power, certain market segments will remain very tight. This is notably the case for semi-detached and row houses, which had a seller-to-buyer ratio of just 3 to 1 in the first quarter of 2008. With property prices having soared in recent years, semi-detached and row houses will remain very appealing, thanks to their greater affordability. In the first quarter of 2008, the average price for properties of this type was \$159,500, or \$40,000 less than the average for single-detached houses. It is no surprise, then, that the average listing period for these homes reached just 36 days, compared to

more than 50 days for the other types of properties. In fact, it is expected that the construction of semi-detached and row houses will remain strong over the forecast period.

The condominium segment, for its part, remains the least tight market, with a seller-to-buyer ratio of 7 to 1 at the beginning of 2008. Condominiums are still very much in demand, though, as evidenced by the increase in sales registered in 2007 (+18 per cent), which was well above the gains recorded for all the other housing types. This higher volume of transactions was no doubt partly due to the greater choice of units for sale, but other factors also supported this type of housing last year and will continue to do so over the coming years. For one thing, the affordability of condominiums works in their favour among first-time home buyers. In the first quarter of 2008, condominiums were selling for an average of \$154,780, or nearly \$44,000 less than the average price for single-detached houses (\$198,535). Also, the aging of the population is fuelling demand for condominiums,

which are an interesting alternative in the eyes of senior clients, who are seeking security and for whom the burden of maintaining a single-family property is starting to become increasingly heavy.

Housing starts back on a downward trend

Following a temporary rise in 2007, housing starts will resume their downward trend that began in 2005. More moderate demographic growth and less significant job creation will somewhat limit residential construction over the next two years. The decline will be small, however, as starts are expected to reach 5,000 units in 2008 (-5.4 per cent) and 4,700 units in 2009 (-6 per cent). These levels are above the average for the last twenty years (4,400 units). In fact, continued favourable financing conditions and the absence of surpluses in the different market segments will work in favour of a gradual decline in housing starts.

Given the aging of the population, the price increases in recent years,

and the fact that the cities of Québec and Lévis want to concentrate urban development in already serviced sectors, single-detached home building will be harder hit than multiple-family (semi-detached, row and apartment) housing construction. As such, single-detached home construction will fall by 11 per cent in 2008 and by 8 per cent in 2009, while the decreases will be 1 per cent and 5 per cent, respectively, for multi-family housing.

Still, in the multiple-family housing segment, the construction of semi-detached and row homes is expected to remain stable (at 700 units) in both 2008 and 2009, because such houses are more affordable than single-detached homes. In addition, since the existing semi-detached and row home market segment is very tight, the potential for the construction of such dwellings remains high.

Only condominium starts will increase in 2008, with 1,000 units (+35 per cent). Starts in this segment had temporarily fallen in 2007 (-29 per cent), which had allowed for a reduction in the inventory of unsold new units. As well, for existing condominiums, the seller-to-buyer ratio went from 8 to 1 at the beginning of 2007 down to 7 to 1 at the beginning of 2008. Condominiums therefore remain a popular housing choice among both first-time home buyers, on account of greater affordability, and older people, who want peace of mind and security. In 2009, condominium construction will decrease marginally, as starts of this type should reach 950 units.

Figure 2

Housing Starts by Intended Market Québec CMA

	2007	2008f	% Chg.	2009f	% Chg.
Freehold	2,850	2,600	-10%	2,450	-6%
- Single	2,144	1,900	-11%	1,750	-8%
- Others*	706	700	-1%	700	0%
Condominium	748	1,000	35%	950	-5%
Rental	1,694	1,400	-17%	1,300	-7%
TOTAL	5,284	5,000	-5%	4,700	-6%

Source and forecasts: CMHC f: Forecasts

* Semi-detached and row houses, as well as duplexes.

On the rental market, 1,400 new units should get under way in 2008, and 1,300 in 2009, for decreases of 17 per cent and 7 per cent, respectively. This decline will be largely due to the retirement housing segment, where starts reached a record volume of 913 units in 2007. The arrival of these new units on the market in 2008, along with the addition of other housing projects that have been recently started or announced, may cause certain sectors, such as Québec Des Rivières and L'Ancienne-Lorette, to show temporary surpluses of units. As such, the pace of construction should slow down, to allow for the absorption of the new units. *Traditional* rental housing construction, on the other hand, should remain relatively stable, with

starts staying at about 800 units. The shortage of rental housing in the Québec area would justify more starts but, given the rising construction costs and relatively low rents in the Québec area, it remains difficult to make new housing projects profitable. Most of the new units are therefore part of small wood-and-brick structures.

Rental market to remain tight

After having been on an easing trend since 2003, the rental market tightened again in 2007, as the vacancy rate decreased from 1.5 per cent to 1.2 per cent. With the job market still active, especially for part-time positions (particularly in the retail and accommodation and restaurant sectors), and *traditional*

rental housing starts levelling off, it is anticipated that the rental housing vacancy rate will remain stable at 1.2 per cent in 2008, before rising again slightly to 1.5 per cent in 2009. Even if the surplus of luxury rental housing units has now been absorbed, the vacancy rate will remain higher in this segment (around 2 per cent) than in the affordable unit segment (less than 1 per cent). The difficulty in making more affordable units profitable on account of the higher expenses (construction costs and land prices) is contributing to maintaining a shortage in this market segment.

The average rent for two-bedroom apartments, which had risen by only 0.6 per cent in 2007, should increase by 2 per cent in 2008 and by 1.5 per cent in 2009.

Forecast Summary Québec CMA Spring 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	6,911	6,846	7,287	7,000	-3.9	7,200	2.9
MLS® Active Listings (annual average)	3,101	3,444	3,090	3,200	3.6	3,500	9.4
MLS® Average Price (\$)	152,607	161,693	178,212	191,000	7.2	201,000	5.2
New Home Market							
Starts:							
Single-Detached	2,528	2,226	2,144	1,900	-11.4	1,750	-7.9
Multiples	3,307	2,950	3,140	3,100	-1.3	2,950	-4.8
Starts - Total	5,835	5,176	5,284	5,000	-5.4	4,700	-6.0
Average Price (\$):							
Single-Detached	210,243	207,227	236,794	256,000	8.1	270,000	5.5
New Housing Price Index (% chg.)	4.3	5.2	4.0	3.5	-	3.0	-
Rental Market							
October Vacancy Rate (%)	1.4	1.5	1.2	1.2	-	1.5	-
Two-bedroom Average Rent (October) (\$)	621	637	641	654	-	664	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.8	6.3	6.9	7.0	0.0	6.9	0.0
Mortgage Rate (5 year) (%)	6.3	6.7	7.1	7.1	0.0	7.1	0.0
Annual Employment Level	377,600	376,600	385,700	391,000	1.4	395,000	1.0
Employment Growth (%)	3.9	-0.3	2.4	1.4	-	1.0	-
Unemployment rate (%)	5.6	5.2	5.0	5.1	-	5.0	-
Net Migration ⁽¹⁾	3,940	3,375	4,500	4,000	-11.1	4,000	0.0

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Chambre immobilière de Québec

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

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